

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

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AZ Corporation Commission
Director Of Utilities

6 IN THE MATTER OF THE APPLICATION OF
7 GRAHAM COUNTY UTILITIES, INC. FOR A
8 RATE INCREASE.

DOCKET NO. G-02527A-04-0301

DECISION NO. 67748

OPINION AND ORDER

9 DATE OF HEARING:

February 3, 2005

10 PLACE OF HEARING:

Tucson, Arizona

11 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

12 APPEARANCES:

Russ Barney, Finance Manager, Graham County
Utilities; and

14 David Ronald, Staff Attorney Legal Division, on
behalf of the Utilities Division.

15 **BY THE COMMISSION:**

16 * * * * *

17 Having considered the entire record herein and being fully advised in the premises, the
18 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

19 **FINDINGS OF FACT**

20 1. Graham County Utilities, Inc. ("GCU" or "Cooperative") is a certificated Arizona
21 based non-profit rural cooperative formed by Graham County Electric Cooperative, Inc. in Graham
22 County, Arizona.

23 2. GCU provides natural gas and water services to approximately 4,691 gas and 950
24 water customers.

25 3. On April 20, 2004, GCU filed an application with the Commission for a rate increase
26 for its gas division.

27 4. On May 20, 2004, Commission Utilities Division Staff ("Staff") docketed notification
28 to the Cooperative that its application met the sufficiency requirements of the Arizona Administrative

1 Code and classified the Cooperative as a Class B utility.

2 5. By Procedural Order dated June 1, 2004, procedural guidelines were established and
3 the matter set for hearing on February 3, 2005.

4 6. GCU mailed notice of the hearing to its customers as required by the June 1, 2004
5 Procedural Order.

6 7. By letter dated October 7, 2004, GCU requested that the refinancing of its National
7 Rural Utilities Cooperative Finance Corporation ("CFC") loans be consolidated with its rate
8 application.

9 8. In comments filed November 4, 2004, Staff concurred with the request to consolidate
10 the rate application and the financing request.

11 9. On November 16, 2004, Staff filed its Direct Testimony that recommended a 14.26
12 percent increase in revenues, which was higher than the 13.7 percent increase requested by GCU in
13 its application. Staff recommended that the Commission retroactively approve the Cooperative's
14 refinancing of its CFC loan.

15 10. On November 17, 2004, Staff filed a Request to Re-notice. Staff recommended that
16 GCU provide additional notice to its customers because Staff's recommended rates were higher than
17 those GCU requested in the application.

18 11. Following a teleconference on December 9, 2004, during which Staff and GCU agreed
19 that under the circumstances, publication of an additional notice was appropriate, GCU was ordered
20 to publish notice of Staff's recommended revenue increase by Procedural Order of the same date.

21 12. GCU published the additional notice required in the December 9, 2004, Procedural
22 Order on December 22, and December 29, 2004, in the *Eastern Arizona Courier*, a newspaper of
23 general circulation within its service area.

24 13. GCU's current rates and charges were authorized in Decision No. 63850 (June 28,
25 2001).

26 Revenue Requirement

27 14. During the test year ended December 31, 2003, GCU's gas division experienced an
28 adjusted negative operating margin of \$99,489, on total revenues of \$2,472,613.

15. GCU proposed an increase in revenue of \$338,846, or 13.70 percent over test year revenues. As filed, GCU's proposed revenue level would result in a positive operating margin of \$123,606, a Times Interest Earned Ratio ("TIER") of 1.9987, a Debt Service Ratio ("DSC") of 1.5741 and a return on Original Cost Rate Base ("OCRB") of 14.7 percent.

16. Staff recommends an increase in revenue of \$352,598, or 14.26 percent, over test year revenue. Staff's recommended increase is greater than that requested by the Cooperative in order to produce a TIER of 2.0 and to help the Cooperative move toward a positive equity position. Staff's recommended revenue yields a DSC of 1.6344 and a return on OCRB of 15.5 percent.

17. GCU's lender, the CFC, requires GCU to maintain a TIER of 1.0 and a minimum DSC of 1.15.

Rate Base

18. Staff recommended an adjustment of \$2,789 to remove Construction Work in Progress from rate base, reducing OCRB from \$1,627,996 to \$1,625,207. The Cooperative did not object to Staff's adjustment, nor did the Cooperative file any Reconstruction Cost New Less Rate Base ("RCND") schedules. Thus, GCU waived its right to a RCND finding. Staff's adjustment is reasonable. Consequently, we determine GCU's Fair Value Rate Base ("FVRB") to be the same as its OCRB, or \$1,625,207.

Operating Expenses

19. Staff made no adjustments to GCU's test year revenues. Staff's adjustments increased the Cooperative's proposed Operating Expenses by \$998, from \$2,571,516 to \$2,572,514. Staff adjusted Property Tax Expense to reflect the actual amount collected in the test year and the amount billed for 2004.

20. Staff's adjustments to Operating Expenses are reasonable and should be adopted.

Refinancing Request

21. In Decision No. 56660 (October 25, 1989), the Commission authorized GCU to acquire the water system of Cities Utilities Company and the gas system of General Utilities, Inc. In the same Decision, the Commission authorized GCU to borrow up to \$2,243,711 from the CFC to finance the purchase. This CFC loan had a term of 25 years and an embedded cost of 10.25 percent.

1 per annum. On May 1, 1998, GCU refinanced the loan for a term of 15 years at a rate of 7.1 percent
2 per annum. GCU did not seek Commission approval to refinance the debt. The refinanced loan has
3 the same maturity date (2014) as the original loan.

4 22. Staff's analysis shows that by refinancing the loan, GCU reduced its cost of debt by
5 315 basis points, resulting in total savings over the term of the loan of \$230,357.

6 23. Staff recommends that the Commission retroactively approve GCU's refinancing.

7 Equity Plan

8 24. GCU had negative equity of (-) \$168,874, (-) \$107,060, and (-) \$112,458 for the years
9 ended 2001, 2002 and 2003, respectively. At the end of the test year, GCU's capital structure was
10 composed of 108.8 percent debt and negative (-) 8.8 percent equity.

11 25. The average capital structure of distribution cooperatives that operate in Arizona is
12 comprised of 55.2 percent debt and 44.8 percent equity.

13 26. Staff is concerned that GCU's negative equity position will result in higher debt costs,
14 hinder its ability to incur new debt and finance capital improvements, and that it places upward
15 pressure on rates to cover debt service obligations.

16 27. Staff believes that GCU's revenue requirement should improve its negative equity
17 position and provide an adequate operating margin, TIER and DSC. Staff concludes that a TIER of
18 2.0 would provide GCU with sufficient revenues to meet its debt service and to improve its equity
19 position with minimal impact on ratepayers.

20 28. Staff recommends that the Commission approve an equity plan for GCU with the
21 objective to achieve a capital structure of at least 30 percent equity. Staff recommends that by the
22 end of 2006, GCU increase its percentage of equity by 4 percent over its year-end 2004 equity. Each
23 year thereafter, Staff recommends that the Cooperative increase its equity by 3 percent over year-end
24 2004 equity, until its capital structure is composed of at least 30 percent equity. Staff further
25 recommends that GCU file a rate application within 180 days of the end of any calendar year that
26 GCU is not able to meet the cumulative equity level specified in Staff's plan. Staff believes that
27 GCU should be able to request a waiver from filing a rate application if it can demonstrate to Staff's
28 satisfaction that it is likely that it would achieve Staff's recommended capital levels within a

1 reasonable timeframe without any rate adjustments. Staff states that such demonstration should be
 2 provided within 90 days after the end of the calendar year. Staff further believes that under no
 3 instance should GCU fail to meet Staff's recommended cumulative increase in equity for three
 4 consecutive years without filing a rate application. Staff also recommends that the Commission
 5 prohibit distribution of patronage dividends until GCU has achieved a capital structure composed of
 6 at least 30 percent.¹

7 29. It is in the public interest that GCU improve the equity in its capital structure.

8 Base Cost of Gas and Rate Design

9 30. The base cost of gas is used as an estimate of the typical cost of natural gas to GCU
 10 and is included in GCU's base rates. The base cost of gas accounts for both the commodity cost and
 11 the cost of transporting the natural gas from its source to GCU's distribution system. GCU uses a
 12 purchased gas adjustor ("PGA") mechanism to account for the changing cost of natural gas.
 13 Currently, GCU uses a 12 month rolling average PGA mechanism, whereby a new PGA is calculated
 14 each month. The PGA is banded such that each new month when the PGA rate is set it cannot
 15 change by more than \$0.10 per therm from the rate that was in place in any of the previous 12 months.

16 31. GCU's Gas Division's current rates and the rates and charges proposed by the
 17 Cooperative and Staff are set forth in Exhibit A attached hereto and incorporated herein by reference.

18 32. GCU's current rate schedule for residential gas service contains a monthly service
 19 charge of \$10.00 and a commodity charge of \$0.60477 per therm. GCU's current rate schedule for
 20 irrigation gas service contains a monthly service charge of \$16.00 and a commodity charge of
 21 \$0.47576 per therm. GCU's current rate schedule for commercial gas service contains a monthly
 22 service charge of \$17.00 and a commodity charge of \$0.60651 per therm. The per therm commodity
 23 charge consists of two components, the base cost of gas and the margin rate.

24 33. GCU proposed that the monthly service charge for residential service be increased to
 25 \$11.00 and the commodity charge increased to \$0.81433 per therm; that the irrigation monthly charge
 26 be increased to \$18.00 and the commodity charge increased to \$0.72532 per therm; and that the
 27

28 ¹ GCU testified that it does not make, and has never made, distributions of patronage dividends.

1 monthly service charge for commercial service be increased to \$19.00 and the commodity charge
2 increased to \$0.79607 per therm. The proposed commodity charges include GCU's newly proposed
3 base cost of gas of \$0.59056 per therm. (See Exhibit A)

4 34. GCU's current base cost of gas is \$0.4210 per therm, which was set in GCU's last rate
5 proceeding (Decision No. 63850, June 28, 2001).

6 35. Staff believes that given the information available at this time concerning GCU's cost
7 of gas, GCU's proposed base cost of gas is reasonable.

8 36. The proposed increase in the base cost of gas is \$0.16944 per therm. Staff
9 recommends that to minimize the impact on ratepayers given the size of the change in the base cost
10 of gas, that the \$0.10 per therm limitation on PGA increases only apply to the upward movement of
11 the monthly PGA rate for the first 12 months that the new rates are in effect.

12 37. Staff further recommends that a GCU officer certify under oath through an affidavit
13 attached to each adjustor report that all information provided in the adjustor report is true and
14 accurate to the best of his or her information and belief.

15 38. GCU proposed an increase in the monthly service charge for all three classes in a
16 generally proportional manner. GCU's proposed per therm commodity charge rates contain a larger
17 increase for irrigation customers on both a percentage and \$/therm basis because GCU's cost of
18 service study showed that the rate of return from irrigation customers was less than the return from
19 other customer classes.

20 39. Staff considered the effect of GCU's and its own cost of service study on the
21 allocation of the proposed revenue increase, but also considered other factors such as the
22 minimization of rate shock. Staff's proposed rate design reflects less emphasis in recovering
23 revenues through monthly service charges and contains a more moderate increase for irrigation
24 customers while still increasing the irrigation margin rate more than for the other customer classes on
25 both a percentage and \$/therm basis. To achieve Staff's proposed revenue requirement, Staff
26 recommends a monthly service charge of \$10.50 and a tariffed rate of \$0.82500 per therm for
27 residential customers; a monthly service charge of \$17.00 and a tariffed rate of \$0.69000 per therm
28 for irrigation customers; and a monthly service charge of \$18.00 and a tariffed rate of \$0.83100 per

1 therm for commercial customers. (See Exhibit A)

2 40. Under Staff's proposed rates, and holding the total cost of gas constant at \$0.59056
3 per therm, the average residential customer using 37 therms per month would experience an increase
4 of 6.14 percent, from \$38.65 to \$41.03. The average irrigation customer using 323 therms per month
5 would experience an increase of 6.88 percent, from \$224.44 to \$239.87. An average commercial
6 customer using 257 therms per month would see an increase of 6.98 percent, from \$216.45 to
7 \$231.57. During the peak heating season, based on January 2004 usage, an average residential
8 customer using 99 therms would experience a 6.37 percent increase, from \$86.66 to \$92.18. Based
9 on an average consumption of 615 therms, the average commercial customers would experience an
10 increase of 7.04 percent, from \$494.28 to \$529.07. Irrigation customers using the average January
11 2004 consumption of 209 therms, would see an increase of 6.85 percent, from \$150.87 to \$163.30.

12 41. GCU had no objection to Staff's proposed revenue requirement or rate design.

13 42. GCU proposed changes to two of its service charges. It proposed eliminating its
14 charge for "field collection charge – delinquent accounts", which was \$20.00, because the
15 Cooperative no longer wants to have its employees in the field collecting on delinquent accounts due
16 to liability and other concerns. In addition, GCU proposes increasing the insufficient funds check
17 charge from \$20.00 to \$25.00 due to higher costs being incurred by the Cooperative.

18 43. Staff concurs with GCU's proposed service charges.

19 44. Staff's recommended revenue requirement and its proposed rates and charges are fair
20 and reasonable and should be adopted.

21 45. GCU's Rules and Regulations contain a short discussion of curtailment procedures in
22 essence indicating that proportionate curtailments will be made, and if such proportionate curtailments
23 are not sufficient, first priority will be given to customer classes where health, safety and welfare
24 would be adversely affected. Staff believes GCU's gas curtailment plan does not contain the level of
25 detail necessary to clearly define issues such as the priority of customer/classes in the curtailment
26 process.

27 46. Staff recommends that within 60 days of the final Decision in this proceeding, GCU
28 be required to file an updated, more detailed gas curtailment plan with Docket Control for the review

1 and approval of Staff.

2 Cost of Service

3 47. Staff reviewed GCU's Cost of Service Study ("COSS") and found it to be generally
4 consistent with the methodology accepted in the industry. Staff recommends two changes in
5 allocation factors. Specifically, Staff recommends that Distribution Mains be allocated based on
6 demand and that Operating Expenses for Distribution Mains and Services be allocated based on 70
7 percent demand and 30 percent according to weighted customers (as opposed to GCU's 50 percent
8 allocation factors). The result of Staff's modification to GCU's COSS shifts rate base and operating
9 expenses from residential and irrigation customers to commercial customers, and increases the rate of
10 return attributed to residential and irrigation customers and decreases the rate of return from
11 commercial customers.

12 48. Staff recommends that GCU continue to utilize the current COSS model including the
13 revised allocation factors in future rate cases.

14 49. GCU did not oppose Staff's modifications to its COSS.

15 50. GCU is in compliance with Commission Rules, Regulations and Orders.

16 51. GCU is current with its property and sales taxes.

17 CONCLUSIONS OF LAW

18 1. GCU is a public service corporation within the meaning of Article XV of the Arizona
19 Constitution and A.R.S. §§ 40-250 and 40-251.

20 2. The Commission has jurisdiction over GCU and of the subject matter of the
21 application.

22 3. Notice of the application was provided in the manner prescribed by law.

23 4. The rates and charges approved herein are just and reasonable and should be adopted.

24 5. Staff's recommendations set forth in Findings of Fact Nos. 23, 28, 36, 37, 46 and 48
25 are reasonable and should be adopted.

26 6. The financing approved herein is for lawful purposes within the Cooperative's
27 corporate powers, is compatible with the public interest, with sound financial practices, and with the
28

proper performance by GCU of service as a public service corporation, and will not impair GCU's ability to perform the service.

7. The financing approved herein is for the purposes stated in the application, is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Graham County Utilities, Inc. shall file with the Commission on or before April 29, 2005, revised schedules of rates and charges consistent with the rates approved hereinbelow:

Base Cost of Gas	\$0.59056
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Residential

Monthly Service Charge	\$10.50
Commodity Charge	\$0.82500 per therm

Irrigation

Monthly Service Charge	\$17.00
Commodity Charge	\$0.69000 per therm

Commercial

Monthly Service Charge	\$18.00
Commodity Charge	\$0.83100 per therm

Miscellaneous Service Charges:

Establishment of Service – Regular Hours	\$20.00
Establishment of Service – After Hours	\$35.00
Reestablishment of Service – Regular hours	\$30.00
Reestablishment of Service – After Hours	\$45.00
Reconnection of Service – Regular Hours	\$30.00
Reconnection of Service – After Hours	\$50.00
After Hours Service Calls – Customer caused	\$50.00
Meter Re-read Charge (if correct)	\$10.00
Meter Test Fee	\$10.00
NSF Charge	\$25.00
Interest Rate on Customer Deposits	6.0%
Late Payment (per month)	1.5%

...

1 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
2 for all service rendered on and after May 1, 2005.

3 IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall notify its customers of
4 the revised schedules of rates and charges authorized herein by an insert in its next customer
5 newsletter or by separate mailing in a form approved by Staff.

6 IT IS FURTHER ORDERED that GCU's refinancing of its acquisition debt from the CFC in
7 1998 is hereby approved.

8 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
9 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
10 proceeds derived thereby for purposes of establishing just and reasonable rates.

11 IT IS FURTHER ORDERED THAT Graham County Utilities, Inc. shall comply with Staff's
12 recommended equity enhancement plan as set forth in Findings of Fact No. 28.

13 IT IS FURTHER ORDERED that for the first twelve months after the effective date of this
14 Decision the \$0.10 per therm limitation on PGA increases shall only apply to the upward movement
15 of the PGA rate.

16 IT IS FURTHER ORDERED that an officer of Graham County Utilities, Inc. shall certify
17 under oath through an affidavit attached to each adjustor report that all information provided in the
18 adjustor report is true and accurate to the best of his or her information and belief.

19 IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall file within 60 days of
20 the effective date of this Decision a detailed curtailment plan for the review and approval of Staff.

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28 ...

IT IS FURTHER ORDERED that in its next rate case GCU shall utilize its current Cost of Service Study model as modified by Staff's recommendations herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 11th day of April, 2005.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

JR:mj

SERVICE LIST FOR:

GRAHAM COUNTY UTILITIES, INC.

DOCKET NO.:

G-02527A-04-0301

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Miscellaneous Service Charges

Service Charge	Current	Proposed
Establishment of Service - Regular Hours	\$20.00	\$20.00
Establishment of Service - After Hours	\$35.00	\$35.00
Reestablishment of Service - Regular Hours	\$30.00	\$30.00
Reestablishment of Service - After Hours	\$45.00	\$45.00
Reconnection of Service - Regular Hours	\$30.00	\$30.00
Reconnection of Service - After Hours	\$50.00	\$50.00
Field Collection Charge - Delinquent Accounts	\$20.00	-
After House Service Calls - Consumer Caused	\$50.00	\$50.00
Meter Reread Charge (No Charge for Read Error)	\$10.00	\$10.00
Meter Test Fee	\$10.00	\$10.00
Insufficient Funds Check	\$20.00	\$25.00
Interest Rate on Customer Deposits	6.00%	6.00%
Late Payment (Per Month)	1.50%	1.50%

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RATE DESIGN COMPARISON

GRAHAM COUNTY UTILITIES GAS DIVISION
DOCKET NO. G-02527A-04-0301

RATE SCHEDULES	PRESENT RATES		PROPOSED RATES			
	COMPANY	\$ CHANGE	% CHANGE	STAFF RECOMMENDED	\$ CHANGE	% CHANGE
BASE COST OF GAS		\$0.42100		\$0.59056	\$0.16956	40.28%
PURCHASED GAS ADJUSTOR		\$0.16956		\$0.00000	-\$0.16956	-100.00%
RATE SCHEDULES	PRESENT RATES		PROPOSED RATES			
	COMPANY	\$ CHANGE	% CHANGE	STAFF RECOMMENDED	\$ CHANGE	% CHANGE
<u>RESIDENTIAL</u>						
TARIFFED RATE	0.60477	0.81433	0.20956	0.34651	0.82500	38.42%
SERVICE AVAILABILITY	10.00	11.00	1.00000	0.10000	10.50000	5.00%
<u>IRRIGATION</u>						
TARIFFED RATE	0.47576	0.72532	0.24956	0.52455	0.69000	45.03%
SERVICE AVAILABILITY	16.00	18.00	2.00000	0.12500	17.00000	6.25%
<u>COMMERCIAL</u>						
TARIFFED RATE	0.60651	0.79607	0.18956	0.31254	0.83100	37.01%
SERVICE AVAILABILITY	17.00	19.00	2.00000	0.11765	18.00000	5.88%
RATE SCHEDULES	PRESENT RATES INCLUDING MONTHLY PGA		PROPOSED RATES			
	COMPANY	\$ CHANGE	% CHANGE	STAFF RECOMMENDED	\$ CHANGE	% CHANGE
<u>RESIDENTIAL</u>						
TOTAL RATE	0.77433	0.81433	0.04000	0.05166	0.82500	6.54%
SERVICE AVAILABILITY	10.00	11.00	1.00000	0.10000	10.50000	5.00%
<u>IRRIGATION</u>						
TOTAL RATE	0.64532	0.72532	0.08000	0.12397	0.69000	6.92%
SERVICE AVAILABILITY	16.00	18.00	2.00000	0.12500	17.00000	6.25%
<u>COMMERCIAL</u>						
TOTAL RATE	0.77607	0.79607	0.02000	0.02577	0.83100	7.08%
SERVICE AVAILABILITY	17.00	19.00	2.00000	0.11765	18.00000	5.88%